

Consensus Forecasting Group Revised Revenue Outlook: January 2003

Dr. Merl Hackbart

Professor of Finance and Public Administration
Martin School of Public Policy and Administration
University of Kentucky

Dr. Lawrence Lynch

Professor of Economics
Transylvania University

**Presentation to Interim Joint
Committee on Appropriations & Revenue**

January 21, 2003

Consensus Forecast Update: Economic Overview of Recent Past and 2003

The National Economy: An Update

■ Forecast Overview: “Recovery but Slow”

- U.S. Economy Slowed in the 4th Quarter (2002)
- Final Demand Increased at .3 % Rate
- Final Demand “Held Up” by Vehicle Sales
- Overall Anticipated Growth = 3.1% for 2003 (Up from 2.4 % in 2002)

■ 2003 Uncertainties: “Greater than Normal”

- Possible War with Iraq
 - Tax Cuts
 - Weaker Dollar
 - Government Purchases
 - Fed Policy (Expected to tighten if Recovery Materializes)
-

Economic Outlook (cont.)

Other Observations

- Slowing of Consumer Spending to be “Offset” by Federal Purchases (Military and Other)
 - Slow Growth in Plant & Equipment Expenditures are Anticipated
 - A Weaker Dollar will Limit Trade Decline
 - Consumer Confidence Expected to Rebound when “Uncertainties” get Resolved
-

Economic Outlook: Assumptions by Global Insight (DRI)

War with Iraq

- Incorporated into Baseline (60% probability)

Fiscal Stimulus (Tax Cut and Expenditures)

- All stimulus impact anticipated to be about \$50 billion

Financial Markets

- Small gain with periodic backsliding

International Outlook

- Slow growth in Europe and Japan (stimulus could help)
-

Selected U.S. and Kentucky Economic Indicators

FY 2003

FY 2004

	Nov 02	Jan 03	Nov 02	Jan 03
U.S. Real GDP	2.7%	2.8%	3.7%	4.4%
Rate of Inflation	2.5%	2.2%	2.8%	2.2%
Consumer Confidence	87.2	84.4	93.7	93.1
Personal Income				
U.S.	4.5%	4.2%	5.5%	6.0%
Kentucky	4.6%	4.3%	4.8%	5.1%
Nonagricultural Employment				
U.S.	0.2%	-0.1%	2.3%	1.8%
Kentucky	0.8%	1.0%	2.5%	1.4%

Kentucky Economic and State Revenue Outlook Changes Since November 2002

The Economy and State Revenue

- **The Economic Outlook** has Remained Stable
- Modest Adjustments to Sales Tax

Unanticipated Events/Trends & State Revenue

- “Large” Powerball Jackpot (\$300 Million)
 - **Higher Amnesty Revenues** than Anticipated in November
 - **Corporate Declarations Up; Refunds Down**
 - **Individual Income Declarations Stronger** than Anticipated given Economic Conditions
 - **Inheritance Tax Up**
-

General Fund Estimate: FY03

(millions of dollars)

	Nov '02	Jan '03		% Chg
	CFG	CFG	Diff.	Yr Ago
Sales & Use	2,406.0	2,401.5	-4.5	4.4
Individual Income	2,803.2	2,836.6	33.4	5.0
Corp. Income & Lic.	359.0	389.9	30.9	20.0
Coal Severance	143.7	143.7	0.0	-10.3
Property	432.3	433.8	1.5	0.2
Lottery	161.9	171.9	10.0	1.7
Other	462.1	485.1	23.0	3.1
Total General Fund	\$6,768.2	6,862.5	\$94.3	4.6%

General Fund Estimate: FY04

(millions of dollars)

	Nov '02	Jan '03		% Chg
	CFG	CFG	Diff.	Yr Ago
Sales & Use	2,478.2	2,456.9	-21.3	2.3
Individual Income	2,987.0	2,979.5	-7.5	5.0
Corp. Income & Lic.	365.6	396.3	30.7	1.7
Coal Severance	140.6	140.6	0.0	-2.2
Property	441.3	444.3	3.0	2.4
Lottery	158.2	158.2	0.0	-8.0
Other	462.5	462.5	0.0	-4.7
Total General Fund	\$7,033.4	\$7,038.3	\$4.9	2.6%

General Fund Forecast History

(millions of dollars)

	CFG Est. Dec '01	CFG Est. Nov '02	CFG Est. Jan '03	Difference Dec '01/Jan '03
FY03	6,937.9	6,768.2	6,862.5	-75.4
FY04	7,219.6	7,033.4	7,038.3	-181.3

Road Fund Estimate: FY03

(millions of dollars)

	Nov '02	Jan '03		% Chg
	CFG	CFG	Diff.	Yr Ago
Motor Fuels & MF Usage/Surtax	453.8	456.4	2.6	2.7
Motor Vehicle Usage & Rental	428.4	426.7	-1.7	-0.6
Lic. & Privilege (excl. WD)	103.2	103.1	-0.1	-0.8
Weight Distance Tax/Surtax	77.8	78.3	0.5	4.0
Tolls	13.8	13.3	-0.5	-3.6
Investment	15.0	23.0	8.0	-28.6
Other	20.1	20.3	0.2	0.5
Total Road Fund	\$1,112.1	\$1,121.1	\$9.0	0.2%

Road Fund Estimate: FY04

(millions of dollars)

	Nov '02	Jan '03		% Chg
	CFG	CFG	Diff.	Yr Ago
Motor Fuels & MF Usage/Surtax	462.8	465.2	2.4	1.9
Motor Vehicle Usage & Rental	449.2	447.8	-1.4	4.9
Lic. & Privilege (excl. WD)	106.4	106.1	-0.3	2.9
Weight Distance Tax/Surtax	80.8	81.1	0.3	3.6
Tolls	14.1	13.7	-0.4	3.0
Investment	3.5	5.5	2.0	-76.1
Other	20.5	20.8	0.3	2.5
Total Road Fund	\$1,137.3	\$1,140.2	\$2.9	1.7%

Risks to Kentucky Revenue Forecast

- # **Uncertainty Regarding the Economy**
 - More “Uncertainty” than Normal
 - # **Consumer Confidence, Business Investment and Federal Policy**
 - The Major Factors Influencing the Recovery
 - # **Financial Sector and Impact on Economy**
 - Market Drop Could Negatively Impact Consumer Confidence and the Recovery
 - # **Unanticipated Events [Positive or Negative]**
-